



LIMPOPO

PROVINCIAL GOVERNMENT
REPUBLIC OF SOUTH AFRICA

PROVINCIAL TREASURY

Enq: Ntuli P S

Ref: 12/1/6/8/2/1

Date: 19 April 2012

Director-General: National Treasury

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PRETORIA

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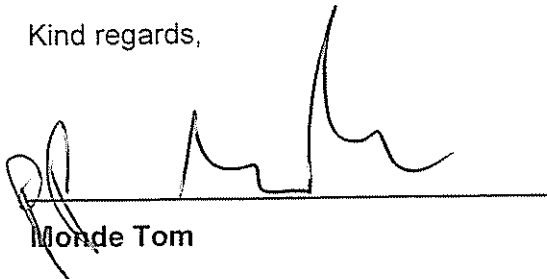
Attention: Mr. J. Hattingh

**MUNICIPAL FINANCE MANAGEMENT ACT NO. 56 OF 2003: IN-YEAR-MONITORING:
SECTION 71 (6) REPORTING: FEBRUARY 2012**

In terms of section 71(6) of the MFMA, the Provincial Treasury must by no later than 22 working days after the end of each month submit to the National Treasury a consolidated statement in the prescribed format on the state of the municipalities' budgets, per municipality and per municipal entity.

Attached please find the Limpopo Provincial Treasury's MFMA section 71(6) consolidated statements and narratives as at 29 February 2012.

Kind regards,



Monde Tom

26/4/2012

Administrator: Provincial Treasury,

Limpopo Government Section 100(1)(b) Constitution, Intervention.

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Date:

LIMPOPO PROVINCIAL TREASURY

Report on Consolidated MFMA S71 (Monthly Budget Statements)

As at 29 February 2012

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List of acronyms

1.	AO	Accounting Officer
2.	CFO	Chief Financial Officer
3.	HoD	Head of Department
4.	IYM	In year monitoring
5.	LPT	Limpopo Provincial Treasury
6.	MBRR	Municipal Budget & Reporting Regulations
7.	MEC	Member of Executive Council
8.	MFMA	Municipal Finance Management Act No 56 of 2003
9.	MM	Municipal Manager
10.	MTREF	Medium Term Revenue & Expenditure Framework
11.	NT	National Treasury
12.	PPE	Property, Plant and Equipments
13.	SMME's	Small Micro & Medium Enterprises
14.	YTD	Year to date

1. Purpose

To provide consolidated monthly financial statements for 30 municipalities in Limpopo Province as at 29 February 2012.

2. Background

In terms of section 71(1) of the MFMA, the accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month:

- a) Actual revenue, per revenue source;
- b) Actual borrowings;
- c) Actual operating expenditure, per vote;
- d) Actual capital expenditure, per vote;
- e) The amount of any allocation received;
- f) Actual expenditure on those allocations, excluding expenditure on –
 - i. Its share of the local government equitable share; and
 - ii. Allocations exempted by the annual Division of Revenue Act from compliance with this paragraph and;
- g) When necessary, an explanation of –
 - i. Any material variance from the municipality's projected revenue by source, and from the municipality's expenditure projections per vote;
 - ii. Any material variance from the service delivery and budget implementation plan; and
 - iii. Any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remains within the municipality's approved budget.

According to section 71(6) of the MFMA, the Provincial Treasury must by no later than 22 working days after the end of each month submit to the National Treasury a consolidated statement in the prescribed format on the state of the municipalities' budget, per municipality and per municipal entity.

3. Methodology / Assessment Technique

The consolidated monthly budget statement is compiled in terms of Section 71(6) of the Municipal Finance Management Act (No. 56 of 2003). The year-to date budget amounts reflected in statements are compared with the year-to date actual amounts and variances are identified. The majority of municipalities do not provide reasons for material variances; hence assumptions in this report are based on the motivations provided by the few municipalities or those that are gathered during our interaction with the municipalities.

4. MFMA S71 Compliance Checklist

Table 1: MFMA S71 Compliance Checklist

Municipality	Dec-11	Jan-12	Feb-12
DC 35 - CAPRICORN	16.01.2012	14.02.2012	27.03.2012
LIM 351 - BLOUBERG	13.01.2012	14.02.2012	14.03.2012
LIM 352 - AGANANG	19.01.2012	14.02.2012	19.03.2012
LIM 353 - MOLEMOLE	13.01.2012	14.02.2012	
LIM 354 - POLOKWANE	13.01.2012	14.02.2012	
LIM 355 - LEPELLE-NKUMPI	09.01.2012	13.02.2012	09.03.2012
DC - 47 - GREATER SEKHUKHUNE	13.01.2012	14.02.2012	
LIM 471 - EPHRAIM MOGALE	16.01.2012	14.02.2012	13.03.2012
LIM 472 - ELIAS MOTSOLEDI	13.01.2012	13.02.2012	13.03.2012
LIM 473 - MAKHUDUTHAMAGA	16.01.2012	14.02.2012	14.03.2012
LIM 474 - FETAKGOMO	16.01.2012	14.02.2012	14.03.2012
LIM 475 - GREATER TUBATSE	11.01.2012	24.02.2012	
DC 33 - MOPANI	10.01.2012	14.02.2012	14.03.2012
LIM 331 - GREATER GIYANI	13.01.2012	14.02.2012	26.03.2012
LIM 332 - GREATER LETABA	13.01.2012	14.02.2012	14.03.2012
LIM 333 - GREATER TZANEEN		14.02.2012	14.03.2012
LIM 334 - BA- PHALABORWA	18.01.2012	14.02.2012	26.03.2012
LIM 335 - MARULENG	16.01.2012	10.02.2011	09.03.2012
DC 36 - WATERBERG	16.01.2012	14.02.2012	14.03.2012
LIM 361 - THABAZIMBI	16.01.2012	14.02.2012	
LIM 362 - LEPHALALE	13.01.2012	14.02.2012	29.03.2012
LIM 364 - MOOKGOPONG	17.01.2012	14.02.2012	14.03.2012
LIM 365 - MODIMOLLE	16.01.2012	14.02.2012	14.03.2012
LIM 366 - BELA-BELA	16.01.2012		12.03.2012
LIM 367 - MOGALAKWENA	16.01.2012	14.02.2012	
DC 34 - VHEMBE	17.01.2012	14.02.2012	15.03.2012
LIM 341- MUSINA	16.01.2012	14.02.2012	29.03.2012
LIM 342 - MUTALE		14.02.2012	14.03.2012
LIM 343 - THULAMELA	16.01.2012	14.02.2012	14.03.2012
LIM 344 - MAKHADO	19.01.2012	14.02.2012	15.03.2012

Source: In-year-monitoring database

Table 1 indicates that for the month of February 2012, twenty-four (24) out of thirty (30) municipalities submitted MFMA S71 Schedule C reports. This is a regression considering that in January 2012; only two (2) municipalities did not submit the MFMA S71 reports. Out of the twenty-four (24) submissions, five (5) submitted the reports after the due date prescribed by the MFMA, and none of the eleven (11) municipality complied with MFMA S74 (2) in this regard.

5. Municipal Budget Implementation

This section of the report focuses on progress made by municipalities in budget implementation. It indicates the extent to which Accounting Officers comply with Section 69 of the MFMA in terms of budget management.

5.1 Financial Performance

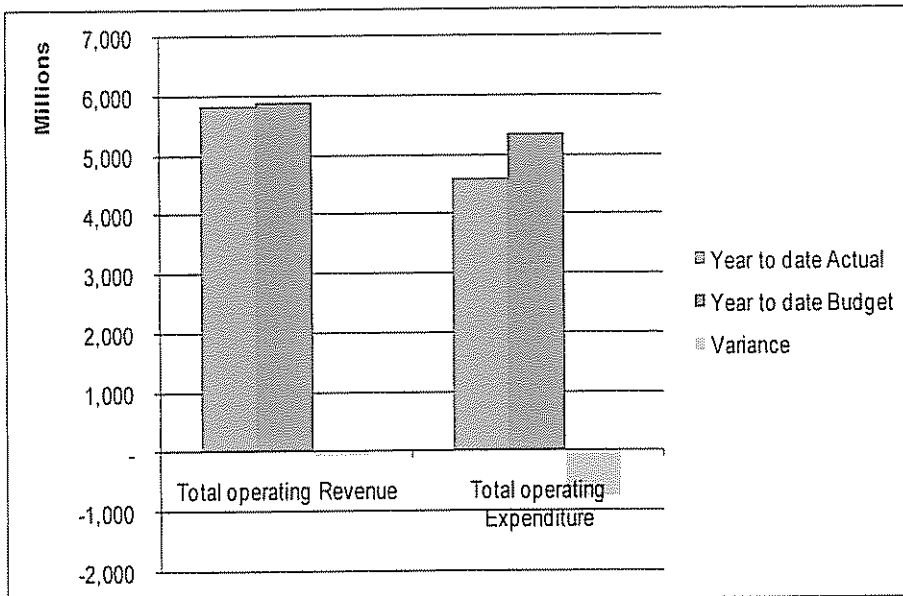
Financial performance statements show operating revenue and expenditure for the year to date. The variances between the budget and actual expenditure are reflected in these statements.

Table 2: Financial performance

R thousands	Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
Financial Performance									
Property rates	685,471	709,777	290,510	70,868	471,303	418,038	53,264	13%	620,238
Service charges	2,194,167	2,543,405	1,176,834	222,266	1,612,726	1,564,309	48,417	3%	2,357,051
Investment revenue	194,014	247,320	154,638	32,367	174,679	142,006	32,673	23%	216,322
Transfers recognised - operational	3,894,715	4,585,749	3,523,920	211,781	3,236,532	3,203,235	33,297	1%	3,876,950
Other own revenue	579,070	975,412	618,810	43,985	343,825	580,887	(237,062)	-41%	827,210
Total Revenue (excluding capital transfers and contributions)	7,547,436	9,051,662	5,764,713	581,287	5,839,065	5,908,475	(69,410)	-1%	7,897,770
Employee costs	2,319,072	2,829,110	1,898,158	247,649	1,638,014	1,844,741	(206,728)	-11%	2,443,861
Remuneration of Councillors	247,911	306,784	184,488	26,685	176,668	182,668	(5,999)	-3%	241,979
Depreciation & asset impairment	790,269	564,347	497,449	83,657	193,651	376,664	(183,013)	-49%	601,039
Finance charges	52,620	71,604	27,127	728	24,443	43,019	(18,576)	-43%	59,643
Materials and bulk purchases	1,425,075	1,775,260	858,019	143,760	1,047,072	1,076,433	(29,361)	-3%	1,858,334
Transfers and grants	118,623	142,126	93,932	6,799	40,457	49,901	(9,444)	-19%	78,190
Other expenditure	2,509,170	2,899,288	2,228,174	209,704	1,488,273	1,796,355	(308,082)	-17%	2,476,907
Total Expenditure	7,462,738	8,588,520	5,787,348	718,982	4,608,579	5,369,781	(761,202)	-14%	7,759,054
Surplus/(Deficit)	84,698	473,143	(22,635)	(137,695)	1,230,486	538,695	691,792	128%	138,716

Source: In-year-monitoring database

Figure 1: Financial Performance



Source: In-year-monitoring database

The financial performance to date reveals that municipalities achieved above the year-to-date budget for items like property rates, operating grants and investment revenue. Conservative budgeting and non consideration of extensions during budgeting periods are possible contributors to this performance. The line item other revenue on the other hand records a negative variance of 41 percent which is under collection on own revenue. This line item consists of revenue from rental of municipal buildings, licences, fines, agency services, etc.

The underperformance on the operating expenditure budget remains a challenge. Amongst other contributors is the poor application of accounting principles resulting in non allocation of expenditure for non cash items. In addition, poor budgeting principles for items like borrowing resulted in a huge underperformance on the item; this is as a result of municipalities budgeting for the revenue from borrowing and subsequently budgeting for finance charges against the borrowings applying principles which do not meet the criteria for realistically anticipated revenue in terms of the MBRR.

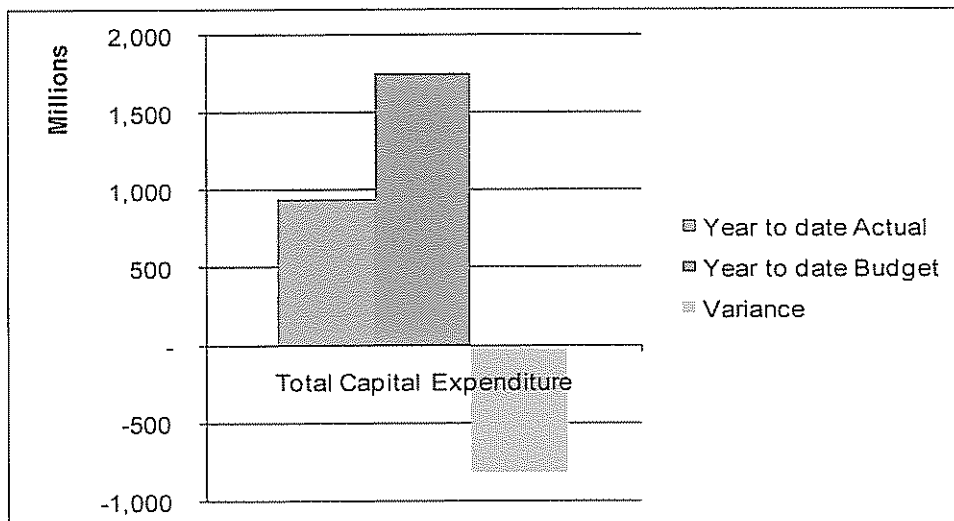
5.2 Capital Expenditure

Table 3: Capital Expenditure and Sources of funds

	2010/11	Budget Year 2011/12							
	Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands									
Capital expenditure & funds sources									
Capital expenditure	2,504,406	3,783,642	2,037,884	132,827	938,103	1,759,725	(821,622)	-47%	1,715,693
Capital transfers recognised	1,172,628	3,482,278	1,583,091	124,615	976,988	1,571,924	(594,936)	-38%	1,674,224
Public contributions & donations	3,528	-	-	-	-	-	-	-	-
Borrowing	33,674	53,950	50,000	1,400	29,596	49,048	(19,452)	-40%	53,950
Internally generated funds	557,749	709,151	278,261	9,027	95,005	204,214	(109,208)	-53%	459,463
Total sources of capital funds	1,767,580	4,245,379	1,911,353	135,043	1,101,588	1,825,185	(723,597)	-40%	2,187,637

Source: In-year-monitoring database

Figure 2: Capital Expenditure



Source: In-year-monitoring database

The capital expenditure budget records under spending of R821 million (47 percent) to date, the under spending of 47 percent is as a result of under spending on expenditure funded by grant and borrowings to the value of R594 (38 percent) and R19 million (40 percent) respectively. The inability of municipalities to spend from internally generated funds resulted in a material under spending of R109 million (53 percent). The implication in this regard is that municipalities will not be able to implement the capital budget as per the SDBIP, thereby hampering service delivery. In addition, there is a risk that unspent conditional grant funds will be reverted to the National Revenue Fund due to inefficiencies in contract and project management within municipalities.

Furthermore, the greatest risk is that conditional grant funding may be spent on operating expenses, thereby breaching the conditions of the grant and incurring a liability in that regard.

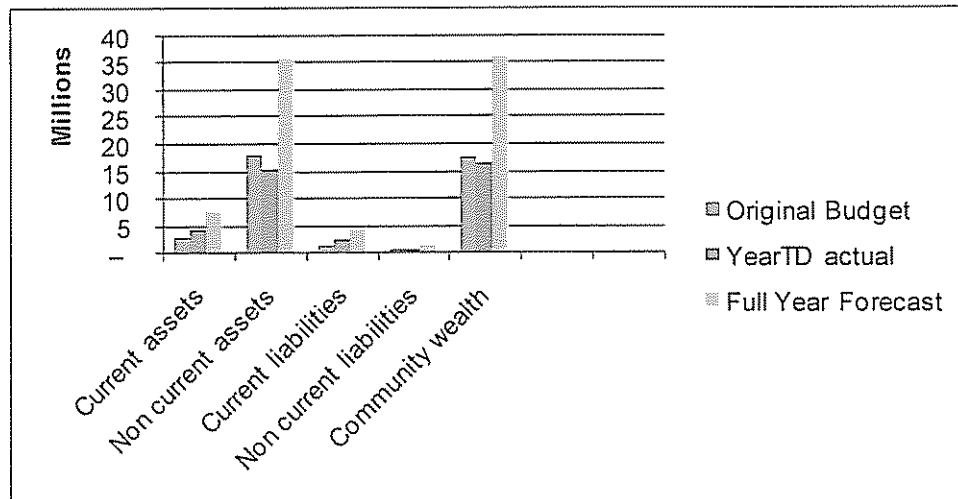
5.3 Financial Position

Table 4: Financial positions

	2010/11	Budget Year 2011/12			
	Audited Outcome	Original Budget	Adjusted Budget	YearTD actual	Full Year Forecast
R thousands					
Financial position					
Total current assets	4,789,207	2,859,009	1,808,704	4,601,162	7,875,866
Total non current assets	23,790,014	18,331,528	6,284,457	15,568,512	35,982,061
Total current liabilities	3,171,079	1,562,745	1,612,085	2,409,690	4,933,631
Total non current liabilities	918,106	710,227	272,149	656,601	1,641,081
Community wealth/Equity	21,452,414	17,911,585	5,674,614	16,609,469	36,301,536

Source: In-year-monitoring database

Figure 3: Financial positions



Source: In-year-monitoring database

This table reveals gross breach of budgeting principles. A horizontal comparison of each line item reveals that this information is not credible and hence, no reliance should be placed on it.

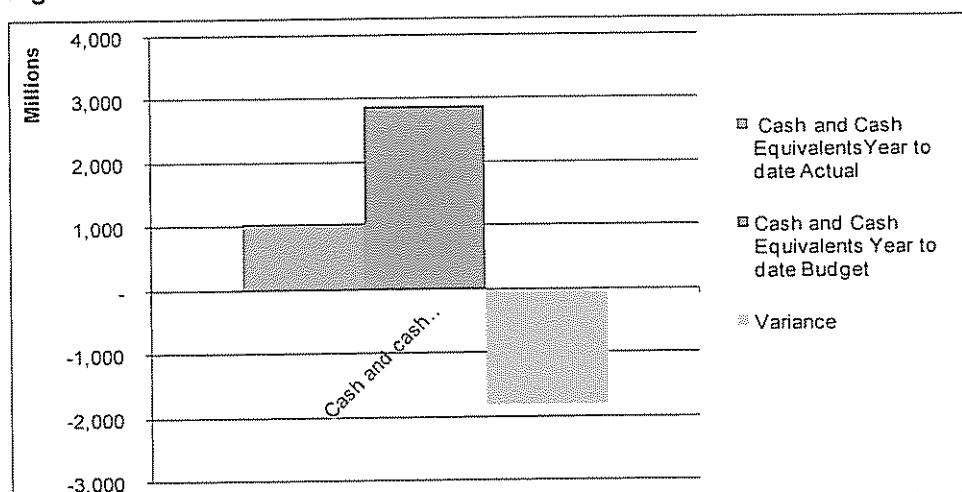
5.4 Cash Flow Statement

Table 5: Statement of Cash Flow

	2010/11	Budget Year 2011/12				
	Audited Outcome	Original Budget	Adjusted Budget	YearTD actual	YearTD budget	Full Year Forecast
R thousands						
Cash flows						
Net cash from (used) operating	3,883,857	5,281,745	2,670,980	2,365,793	2,920,739	5,838,156
Net cash from (used) investing	(3,066,153)	(2,406,119)	(809,380)	(2,263,447)	(689,786)	(1,324,703)
Net cash from (used) financing	342,842	(24,257)	(5,543)	(12,938)	(10,979)	62,422
Cash/cash equivalents at the month/year end	2,099,167	3,517,539	1,999,675	1,037,378	2,886,143	5,523,845

Source: In-year-monitoring database

Figure 4: Statement of Cash Flow



Source: In-year-monitoring database

Municipalities realised a net cash outflow from both investing and financing activities, while a net cash inflow was realised from operating activities. Cash inflow from operating activities mainly comprises of grant funding and own revenue collection while cash from investing and operating activities is sourced from amongst others decrease in investment and borrowings. The net effect of the inflow versus the outflow resulted in a positive cash and cash equivalents at month end of R1 billion. Due to the current challenges regarding the credibility of the cash flow statement of municipalities, reliance on these financial results should be exercised with caution.

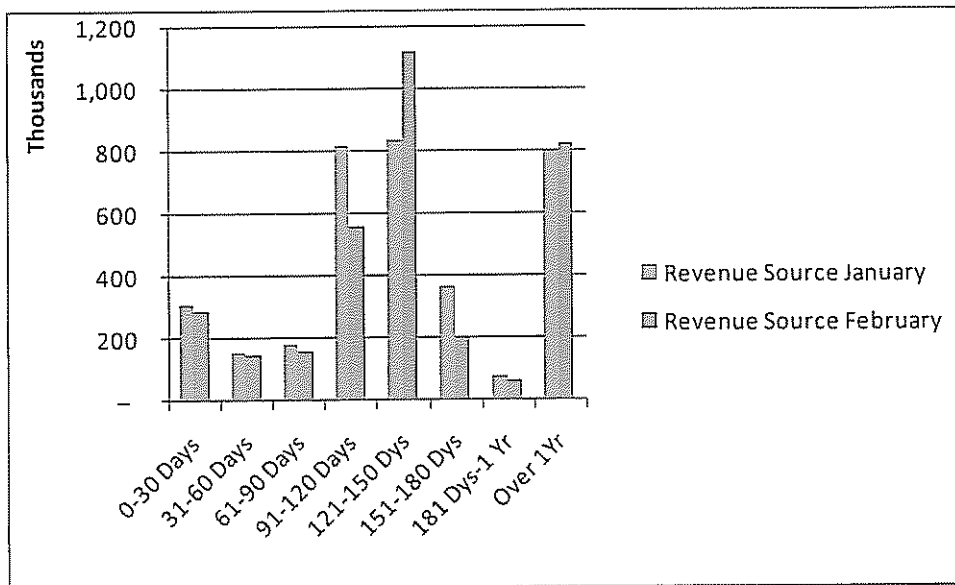
5.5 Debtors and Creditors Ageing

Table 6: Debtors and Creditors Ageing

R thousands	0-30 Days	31-60 Days	61-90 Days	91-120 Days	121-150 Djs	151-180 Djs	181 Djs-1 Yr	Over 1Yr	Total
Revenue Source January	307,009	153,312	173,421	813,394	632,334	363,404	60,665	602,931	3,529,533
Revenue Source February	263,265	144,633	163,092	559,653	1,114,935	203,774	64,261	618,262	3,355,523
Total Creditors January	162,602	33,315	103,915	104,893	74,322	12,249	9,165	313,763	634,412
Total Creditors February	212,992	14,613	8,326	7,227	94,315	11,226	9,326	278,129	639,416

Source: In-year-monitoring database

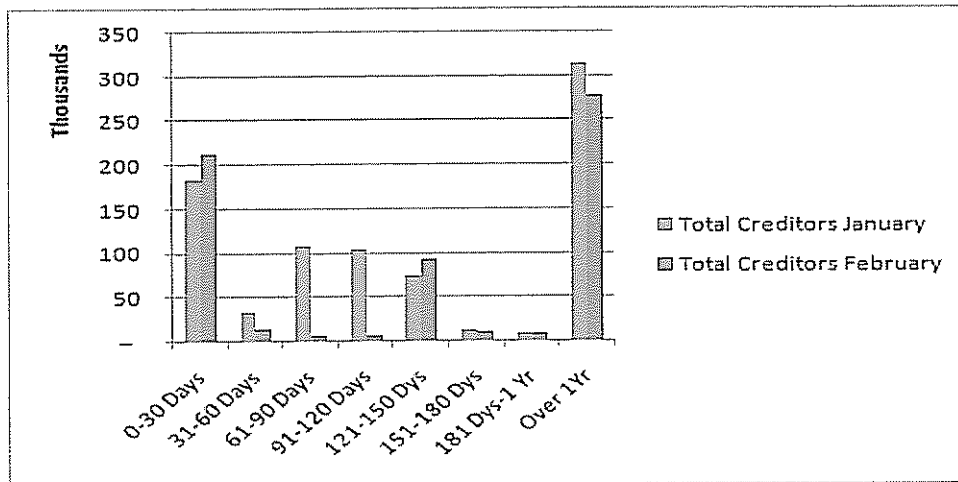
Figure 5: Debtors Ageing



Source: In-year-monitoring database

The table above reflects minimal improvements in terms of collection of revenue due to the municipalities. All categories reveal a decrease in total debt from January to February 2012 with the exception of the category 121 days which recorded an increase of R282 million. However, the total debt decreased by R174 million (5 percent) between January and February 2012. This suggests that municipalities were able to collect some monies from the long outstanding debts. Amongst other municipalities, the intervention by Treasury and CoGHSTA led to the recovery of R22.9 million by Greater Tubatse Local Municipality from The Department of Rural Development and Land Reforms.

Figure 6: Creditors Ageing



Source: In-year-monitoring database

The creditors' book also recorded a decrease in the total owed by municipalities, the total decrease between January and February 2012 amounts to R202 million (24 percent). However, the statement continues to disclose serious non compliance with MFMA S65 and MFMA Circular 49 by having monies owed for more than thirty days.

6. Conclusion

The financial performance of municipalities reveal over performance in property and service charges revenue (budgeted versus actual billing), while underperformance is recorded for own revenue. The operating expenditure and the capital budget continue to underperform by a huge margin. There is a huge positive balance in cash and cash equivalents which represents unspent conditional grants received by municipalities; which in terms of grant conditions is a liability to the National Revenue Fund. The debtors and creditors ageing statement recorded decreases which are as a result of improvement in the collection of outstanding debtors and the payment of creditors, especially trade creditors. The Provincial Treasury will during the assessment of the 2012/13 tabled budget put more efforts in assisting municipalities to have credible budgets. In addition to improving the credibility of the budgets, the assessments will also reduce the level of material variances reported in MFMA S71 reports by municipalities.